

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	Docket 08-0532
)	
Commonwealth Edison Company)	
Investigation of Rate Design)	
Pursuant to Section 9-250 of)	
the Public Utilities Act.)	

REBUTTAL TESTIMONY OF EDWARD C. BODMER
ON BEHALF OF THE CITY OF CHICAGO

OCTOBER 2, 2009

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1 **I. QUALIFICATIONS AND SUMMARY OF TESTIMONY**

2 **Q. What is your name and on whose behalf are you testifying?**

3 A. My name is Edward C. Bodmer. I am testifying on behalf of the City of Chicago
4 (“City”).

5 **Q. Did you previously submit testimony in this case?**

6 A. Yes. I presented direct testimony in this case. My qualifications were included in
7 that testimony.

8
9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The testimony responds to the rebuttal testimonies presented by Commonwealth
11 Edison Company (“ComEd” or the “Company”) witnesses Dr. Ross C. Hemphill,
12 Michael J. Meehan, Alan C. Heintz, and Lawrence S. Alongi. I also respond to
13 the direct testimony submitted by Illinois Commerce Commission (“Commission”
14 or “ICC”) Staff (“Staff”) witness Peter Lazare and certain assertions made by
15 Illinois Attorney General (“AG”) witness Scott J. Rubin in his direct testimony.

16
17 **Q. How is your testimony organized?**

18 A. After making some general observations about ComEd’s testimony, I address the
19 following issues:

- 20 1. Municipal street lighting;
- 21 2. Expenses that ComEd labels as “customer related;”
- 22 3. Collectible accounts expenses;

- 23 4. Service drops; and
24 5. Primary-versus-secondary costs.
25

26 **II. GENERAL COMMENTS REGARDING**
27 **COMED'S REBUTTAL TESTIMONY**
28

29 **Q. At pages 1-2 of his rebuttal testimony (ComEd Ex. 4.0), ComEd witness Ross**
30 **Hemphill comments about the length of your direct testimony. Please**
31 **explain why your direct testimony was so long.**

32 A. To do so requires a brief explanation as to how we got here. In its order in
33 Docket 07-0566 (the "Docket 07-0566 Order"), the Commission identified
34 numerous deficiencies with ComEd's embedded cost of service study ("ECOSS").
35 Among the deficiencies the Commission identified were the way the utilities
36 ECOSS accounted for primary and secondary costs (Docket 07-0566 Order at
37 207), the City's street lighting costs (*id.* at 208), costs that ComEd classifies as
38 "customer related" (*id.* at 211), uncollectible costs (*id.* at 211-12) as well as other
39 items. Although the Commission found that there many deficiencies with
40 ComEd's cost study, it concluded that there was insufficient information in the
41 record to make specific adjustments and used ComEd's cost study (with one
42 modification) to set rates. *Id.* at 213.

43
44 Because of the deficiencies in ComEd's ECOSS, the Commission initiated the
45 current case. In its Initiating Order, the Commission required that ComEd file a
46 new cost study rectifying the deficiencies in the cost study that the Commission

47 reluctantly adopted in Docket 07-0566. *ICC v. Commonwealth Edison Company*,
48 Docket 08-0532, Initiating Order at 2-3 (Sep. 10, 2008) (“Initiating Order”).

49
50 In response, ComEd submitted a new cost study and did prepare significant
51 analysis on primary versus secondary issue, and some work on the competitive
52 supply costs issue. Unfortunately, the Company did little work on other
53 deficiencies the Commission identified in its Order in Docket 07-0566 and
54 included in its Initiating Order in this case. In particular, ComEd conducted little,
55 if any, analysis with respect to issues that are important to low use residential
56 ratepayers and municipal ratepayers – that is, street lighting costs and expenses
57 that ComEd defines as “customer related” costs – issues that were the subject of
58 my direct testimony. Because of what I perceived to be ComEd’s failure to
59 comply with the Commission’s directives on these issues, I found it necessary to
60 work through sometimes tedious details associated with these technical matters.
61 Doing so required that my direct testimony is quite long and, for most, if not all,
62 readers, a slog to get through.

63
64 **Q. Please review the major conclusions from your direct testimony.**

65 A. After making a detailed analysis of street lighting and customer accounts, I
66 concluded that:

67 - Primary facilities related to street lights should be allocated on the basis of
68 coincident peak rather than non-coincident peak;

- 69 - Secondary facilities related to arterial and residential street lights *other*
70 *than* alley lights, should be allocated on the basis of actual costs as they have a
71 fundamentally different structure than street lights that are directly connected to
72 ComEd's secondary system;
- 73 - A detailed analysis of customer costs demonstrates that ComEd unfairly
74 allocates many costs to low use residential ratepayers. A fair allocation reduces
75 the costs allocated to multifamily ratepayers by about \$34 million;
- 76 - Indirect costs associated with attempts to collect unpaid bills, as well as
77 direct costs of losses from unpaid bills, should be included in uncollectible
78 accounts; and
- 79 - Costs of service drops should be allocated on the basis of the size of
80 facilities used by ratepayers.

81

82 **Q. In general terms, what was ComEd's response to your testimony?**

83 A. In my opinion, much of ComEd's rebuttal testimony with respect to issues of
84 primary importance to the City tends to confuse rather than to clarify. The issues
85 I addressed regarding street lighting and customer expense details sometimes
86 involve technical details, requiring excruciating review of individual account
87 activities. ComEd, by making statements filled with technical jargon and that
88 have little to do with the matter at hand, confuses the issues until they become
89 almost impossible to comprehend to an uninitiated observer. Given the difficult
90 nature of the issues, a strategy to confuse issues can be as effective as persuading
91 the decision-maker because it is often easier to accept the status quo rather than

92 trying to cut through a technical morass to try to ascertain the right answer.
93 Therefore, my main goal in this rebuttal testimony is simply to clarify issues.

94

95 **Q. In what other ways did ComEd attempt to justify its positions?**

96 A. ComEd witnesses cited to Commission Orders in rate cases prior to the Docket
97 07-0566 proceeding for support for various assumptions in the utility's cost study,
98 claiming, in essence, that the Commission had ratified the Company's positions in
99 these past cases. *See, e.g.,* ComEd Ex. 7.0 at 4-5, LL 81-90; at 8-9, LL 173-84.

100

101 **Q. Do you find these assertions persuasive?**

102 A. No. It is clear from the Commission's Order in Docket 07-0566 and the Initiating
103 Order in this case, that the Commission is not satisfied with the depth and/or
104 scope of ComEd's ECOSS. The Commission identified many problems with the
105 utility's cost study in the last rate case. Citations to rate orders prior to Docket
106 07-0566 do not seem all that relevant.

107

108 Moreover, cost studies are extremely detailed and concern many technical
109 matters. It is not clear how what the factual record was in those prior cases.
110 Perhaps parties did not focus on the cost studies as much in those prior cases or
111 maybe they focused on different aspects of the studies. In any event, what is
112 important in this case are the Commission's conclusions regarding ComEd's
113 ECOSS in Docket 07-0566, not what the Commission had to say about the
114 Company's cost studies in prior cases.

115

116 **Q. Please summarize ComEd's responses to the issues raised in your direct**
117 **testimony.**

118 A. Some of the main points made by ComEd's witnesses include:

119 - **Primary Street Lighting** -- ComEd's response to my argument that costs
120 should be allocated to street lighting accounts (for the City and other
121 municipalities) on a coincident Peak ("CP") basis was to refer to a few recent rate
122 orders that allocated total distribution costs including both primary and secondary
123 costs. *Id.* at 4-5, LL 81-90; at 8-9, LL 173-84. As I discussed above, I do not
124 think that referring to past rate orders has much value in light of the
125 Commission's conclusions in Docket 07-0566 and its directives in its Initiating
126 Order in this case. In contrast to ComEd's approach, Staff witness Peter Lazare
127 presented a thoughtful analysis of this issue. Mr. Lazare found that ComEd's
128 preferred method – allocating costs of primary distribution facilities on a non-
129 coincident ("NCP") basis – is inequitable to the street lighting class. Staff Ex.
130 1.0 at 34-35, LL 792-808. To address this inequity, Mr. Lazare, consistent with
131 my recommendation, advocated that primary costs be allocated to the street
132 lighting class on a coincident peak basis. *Id.* at 35, LL 810-14.

133

134 - **Secondary Street Lighting** -- ComEd states that that my analysis of
135 secondary costs for secondary facilities associated with City Street Lights is
136 inaccurate. Mr. Alongi testified that the amount of wire associated with
137 residential and arterial street lights is more than I estimated. ComEd Ex. 6.0 at 47-

138 48, LL 1092-125) The Company also asserted that I assumed no secondary wire
139 was used in alley lights even though alley lights were excluded from ComEd costs
140 in my analysis. *Id.* at 47, LL 1102-04. ComEd then states that even though the
141 secondary wire used to provide power to alley lights is also used by residential
142 and business ratepayers, that I should have attributed all of the secondary wires
143 between alley lights to the street light class. *Id.* at 49, LL 1127-35) To be
144 generous, perhaps I was not as clear as I could have been in my direct testimony,
145 but my analysis of street lighting costs focused solely on arterial and residential
146 lights. Alley lights were not included in the part of my analysis which ComEd
147 critiqued. (A less generous interpretation of ComEd's testimony is that the utility
148 was trying to confuse the issue.) In any event, Mr. Alongi's testimony regarding
149 alley lights is meaningless in that it is responding to a point I did not make.

150
151 - ComEd also asserted that the detailed analysis of a single account such as
152 City of Chicago street lighting is inappropriate. ComEd Ex. 7.0 at 9, LL 191-96.
153 This position suggests that attempts to understand the actual cost of service to
154 ratepayers are not relevant. In my opinion, these comments run directly counter
155 to the Commission's Initiating Order that mandates an analysis of the City's and
156 other municipalities' street lighting costs.

157
158 - ComEd points out that some suburbs have the same lighting structure as
159 the City. ComEd Ex. 6.0 at 42, LL 977-81. I acknowledged this in my direct

160 testimony. City Ex. 1.0 at 25, LL 593-94.¹ Mr. Alongi's testimony is beside the
161 point. The City is not claiming that similarly-situated municipalities should not
162 receive the same rate treatment as the City should receive. Any insinuation on
163 ComEd's part that the City is seeking special treatment is unfair.

164

165 - ComEd complained that my comparison of the embedded cost study to the
166 marginal cost study ("MCOSS") with respect to street lighting and other issues is
167 tantamount to comparing apples with oranges. ComEd Ex. 6.0 at 40, LL 926-40.
168 The point I was making was to compare costs that resulted from ComEd's much
169 better marginal cost study to the very crude embedded cost study (labeled
170 "deficient" by the Commission) that necessitated this unique proceeding. My
171 testimony on this point merely highlighted the deficiencies in ComEd's ECOSS.

172

173 - **Customer Costs** -- ComEd did not directly respond to any of the specific
174 adjustments that I made to costs that it labels as customer-related (such as
175 customer information, customer data and billing analysis, customer installation
176 and metering costs.) The detailed analysis in my direct testimony demonstrated
177 that multi-family non-space ratepayers are over-allocated \$34 million of costs and
178 single family ratepayers are over-allocated \$16 million of costs. ComEd did not
179 challenge the specifics of my account by account analysis, but made very general
180 statements that my adjustments are tantamount to socialism (ComEd Ex. 7.0 at
181 p14, LL 290-93) and that my analysis was all founded on a misunderstanding of

¹ The City filed a Verified Motion to File *Instantly* the Revised Direct Testimony of Edward C. Bodmer on Behalf of the City of Chicago on September 23, 2009. There has been no ruling on the motion. As a result, any citations to my direct testimony are to the version filed with the Commission on May 22, 2009.

182 account titles. ComEd Ex. 5.0 at 19, LL 416-22. In fact my analysis was derived
183 from a thorough account by account analysis, the details of which were not even
184 questioned by ComEd. In sum, my customer cost adjustments have not been
185 rebutted by ComEd.

186
187 - Staff witness Lazare testified that customer cost issues have been reviewed
188 and resolved in prior cases. Staff Ex. 1.0 at 33, lines 750-53. ComEd used these
189 three lines of testimony in Mr. Lazare's testimony to dismiss all of my account by
190 account analysis. I respectfully disagree with Mr. Lazare: it is my experience that
191 customer cost issues have received scant attention in past cases. Indeed, the fact
192 that the Commission asked for review such costs in its Initiating Order
193 demonstrates that the Commission decided the review in the last case was
194 insufficient.

195
196 - ComEd asserted that its customer related expenses are founded upon cost
197 causation principles and that my adjustments constitute socialism. ComEd Ex.
198 4.0 at 13-14, LL 274-93. This is dead wrong. The entire basis of my analysis is
199 cost causation. I recognized that at times because of the lack of billing
200 determinants, it is impossible to allocate costs on the basis of cost causers (*e.g.*
201 there is no billing determinant for ratepayers who move.) My position in such
202 cases was that the default allocation principle must not be the number of
203 customers. An example of not being able to directly allocate costs to cost causers
204 is ComEd's Smart Grid pilot program. The costs of this program cannot be

205 associated with specific customers as benefits are expected to accrue to all
206 ratepayers. In that instance, ComEd proposed allocating costs on the basis of
207 revenues rather than on the basis of the number of ratepayers in the various rate
208 classes. My position is simply that many of ComEd's other costs, such as the
209 costs of Nature First, should be allocated in an analogous manner as the costs of
210 the Smart Grid pilot.

211
212 - ComEd testifies that lower customer charges would "destabilize" its
213 revenues. ComEd Ex. 4.0 at 15, LL 306-08. This statement has nothing to do
214 with cost causation and suggests that ComEd is less concerned about accurately
215 computing costs than lowering risk to shareholders.

216
217 - **Uncollectible Account Expenses** -- The only substantial policy change
218 ComEd made in rebuttal testimony compared to its direct testimony was to go
219 backwards on the issue of uncollectible expenses. ComEd Ex. 6.0 at 51, LL
220 1170-1175; ComEd Ex. 4.0 at 9, LL 199-201. This reversal was not driven by
221 any new information, but rather resulted from agreement with general policy
222 opinions expressed by Staff witness Lazare and AG witness Rubin. The
223 uncollectible issue was decided by the Commission in Docket 07-0566. There,
224 the Commission recognized the obvious fact that the actions (not paying bills) of
225 one low income ratepayer should not be imposed disproportionately on other low
226 income ratepayers. The Commission rejected ComEd's (and Staff's and the AG's

227 arguments) in Docket 07-0566. ComEd's position ignores the Commission's
228 ruling on uncollectible account expenses and should be rejected.

229

230 The remainder of my testimony clarifies my positions in comparison to the
231 positions of ComEd, the AG, and Staff with respect to the above issues.

232

233 **III. STREET LIGHTING ANALYSIS – PRIMARY FACILITIES**

234 **Q. How have you structured the discussion of street lighting cost of service**
235 **issues?**

236 A. I begin with the most important issue with respect to street lighting allocation; the
237 allocation of primary facilities using coincident peak rather than non-coincident
238 peak. Next, I turn to the allocation of secondary wire costs and pole costs,
239 demonstrating that different types of street lighting configurations must have
240 different cost allocations. Third, I discuss service drop costs. Lastly, I address
241 miscellaneous issues raised by ComEd that have nothing to do with my
242 recommended approach to street lighting cost.

243

244 **Q. Earlier you stated that Mr. Lazare of Staff agreed with your**
245 **recommendation that street lighting primary facilities be allocated using a**
246 **CP allocator. What did Mr. Lazare say on this point?**

247 A. Mr. Lazare testified that:

248 ... when the system is peaking, lighting demands are low
249 because lighting does not peak until evening hours. In
250 other words, lighting customers use less when capacity is

251 tight and more when spare capacity is available. This is a
252 clear benefit to the system from a cost standpoint.

253 *Nevertheless, these benefits are not recognized in ComEd*
254 *allocation methodology for distribution substations and*
255 *primary lines.* ComEd allocates these costs according to
256 the NCP which uses the peak demand for each class
257 regardless of when it occurs. So the lighting class receives
258 no credit in the ECOS for its off-peak demands despite the
259 benefits to the system that result.

260
261 *The Company should allocate distribution substations*
262 *and primary lines by class contributions to coincident*
263 *peak demands.* This would recognize that the size of these
264 facilities is more clearly driven by system peak demands
265 than by the demands of individual rate classes.
266

267 Staff Ex. 1.0 at 34-35, LL 747-815 (emphasis added).
268

269 I made virtually the same argument in my direct testimony (City Ex. 1.0 at 45-48,
270 1007-50) where I noted that ComEd aggressively argued for allocating primary
271 facilities using CP in the past. Furthermore, I demonstrated that the change in
272 allocation method was the primary factor that caused the dramatic increase in
273 costs per unit of 99% to City and suburban street lighting ratepayers over a time
274 period when the cost per unit for other classes declined.

275
276 **Q. What was ComEd's response to Mr. Lazare's proposal to allocate primary**
277 **facilities on the basis of CP rather than NCP?**

278 A. Mr. Heintz testified that (1) Mr. Lazare did not present Commission precedent
279 for his recommendation (ComEd Ex. 7.0 at 4-5, LL 81-87); (2) that Mr. Lazare
280 "has not proffered any specific evidence supporting his assertion that ComEd's
281 planning for and sizing of primary facilities is driven by system peak demands,

rather than local area demands” (*id.* at 5, LL 88-90); and (3) that Mr. Lazare is concentrating on “the alleged benefits for the three lighting classes (which, together, comprise only 1.5% of the total distribution services revenue requirement)” do not offset the “detrimental effects on other classes (which comprise more than 98% of that revenue requirement).” *Id.* at 4, LL 77-80)

Q. Please comment on Mr. Heintz’s point that the allocation of primary facilities on the basis of CP rather than NCP conflicts with Commission precedent?

A. I disagree with Mr. Heintz’s argument. For decades, ComEd differentiated primary and secondary lines in a cost study (*i.e.* before ComEd started using Mr. Heintz’s methodology). When it did so, the Company allocated primary lines using CP and secondary lines using NCP and the Commission endorsed its approach. This allocation policy had nothing to do with whether other utility companies allocated costs in the same manner. Moreover, an argument that Mr. Lazare’s and my recommendation should be rejected because it is not consistent with Commission precedent seems to have no place in a case where the Commission has asked ComEd and the parties to work through complex cost-of-service issues. Doing so requires independent thinking, not simply restating what others have done.

Q. Please comment on the Mr. Heintz’s second point above regarding whether primary distribution facilities are based on “local area demands.”

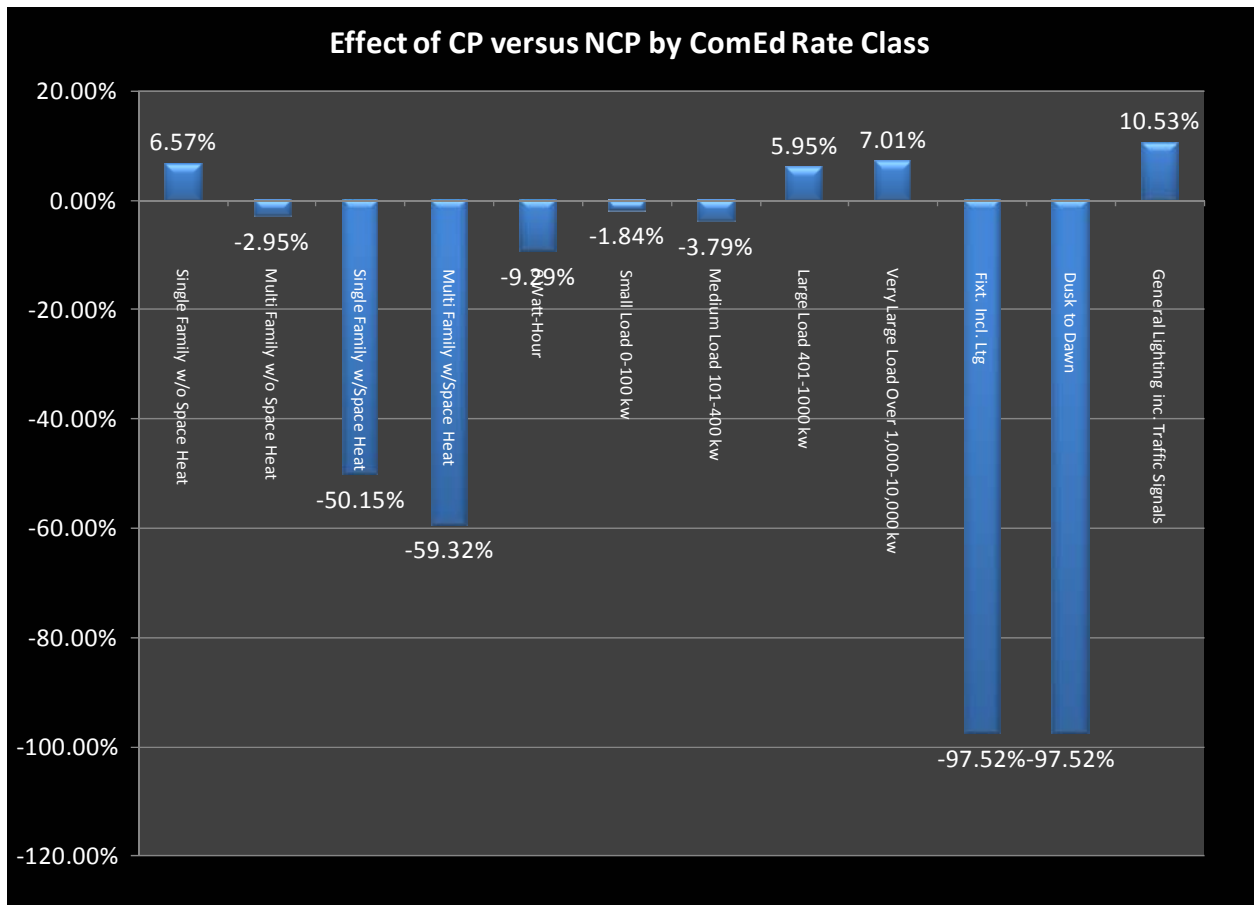
304 A. Mr. Heintz is correct that that costs are driven by “local area demands.” *Id.* at 5,
305 LL 89-90. However, Mr. Heintz ignored the most important fact – that local area
306 demands are local area coincident peak demands -- not artificial non-coincident
307 peak demands. I explained this and the theoretical problems with use of NCP to
308 allocate primary facilities extensively in my direct testimony. City Ex. 1.0 at 40-
309 48, LL 881-1042. I will not repeat the discussion here other than to say there is
310 simply no logical reason to allocate primary facilities on the basis of an artificial
311 concept – NCP -- that leads to inequitable results.

312

313 **Q. Please comment on Mr. Heintz’s third point that the relatively small size of**
314 **the street light class justifies ignoring the inequities identified by Mr. Lazare**
315 **and you.**

316 A. Mr. Heintz’s argument is irrelevant and wrong. Mr. Heintz’s point that that when
317 allocation to one class is reduced, allocations to other classes increase adds
318 nothing -- the Commission understands that cost of service issues are a zero sum
319 game. Changing the allocation of primary facilities to the logical coincident peak
320 basis has small effects on other classes, some of which are positive and some of
321 which are negative. To clarify the issue, relative increases or decreases in
322 demand allocation from use of a CP rather than a NCP allocator are shown on the
323 graph below. In this graph I have computed the effects of allocation of primary
324 facilities on the basis of CP rather than NCP. The graph shows use of CP benefits
325 multi-family ratepayers, space heat ratepayers, small business ratepayers, as well

as street light ratepayers. The residential single family class and the large business classes have increases of less than 10%.



Q. Mr. Alongi stated that in comparing the MCOSS to the ECOSS with respect to street lighting and other classes, you were comparing apples with oranges. ComEd Ex. 6.0 at 40, LL 931-33. Why did compare the effects of ComEd's marginal cost studies to the effects of its embedded cost study?

My objective was to show the Commission the effect of allocation methods used in the MCOSS and compare those effects to the allocation methods used in the ECOSS. I demonstrated that street lighting costs increased by 99% while other costs declined because of the switch from a marginal cost approach to an embedded cost approach. It was not to show minor changes in the ECOSS that have occurred in the past couple of years. The reason the street light class has experienced such an increase in distribution costs since change to the ECOSS is because primary distribution facilities are now allocated used NCP instead of CP, as discussed above. That is the whole point. ComEd would like us to forget that its MCOSS, which used the coincident peak methodology, was strongly defended by many Company witnesses and was used to allocate distribution costs for decades.

Q. Mr. Heintz makes a series of criticisms of the MCOSS that ComEd used for setting rates for decades. What are the facts regarding Mr. Heintz's comments with respect to the history of MCOSS and ECOSS?

A. Mr. Heintz made some surprising assertions to the effect that the MCOSS was never used by the Commission or ComEd to allocate distribution costs. For example, Mr. Heintz stated:

Indeed, Mr. Bodmer's method of analysis is highly reminiscent of many analyses—often at odds with each other—that the Commission was required to consider and wade through in years past when an MCOSS was part of the hearing record. *In all of those hearings, to my knowledge, the Commission utilized the ECOSS as the primary basis for its inter-class revenue requirement allocation.*

364
365 ComEd Ex. 7.0 at 10, LL 203-07 (emphasis added). Mr. Heintz added that "...the
366 fact that Mr. Bodmer later refers to an MCOSS filed many years ago by ComEd is
367 specious, because *it was never used to allocate distribution facilities.*" *Id.* at 12,
368 lines 256-61 (emphasis added).

369

370 **Q. Is Mr. Heintz correct that MCOSS have never been used to allocate**
371 **distribution costs?**

372 A. No. I do not know if Mr. Heintz is trying to rewrite history, but he is wrong. The
373 facts are:

374 - ComEd had to allocate distribution costs ever since it first filed cost
375 studies.

376 - ComEd used its MCOSS study to allocate distribution costs from the time
377 it began to use marginal cost in the 1970's through the 1990's.

378 - ComEd aggressively supported its marginal cost studies by. The
379 Company also aggressively supported the allocation of primary
380 distribution in its MCOSS using the CP method.

381 - In my memory, the disagreements when ComEd's MCOSS was used were
382 minor compared to the discussions in this case. For example, the
383 Commission did not have to add a separate case to address distribution
384 cost allocation of primary and secondary facilities because this
385 differentiation was obvious in the MCOSS.

386 - ComEd's MCOSS accounted for the primary/secondary split and it also
387 reflected under-grounding and density factors. Furthermore, the MCOSS

388 did not allocate customer installation, customer information and other
389 costs according to the number of customers. The arguments in this case
390 largely revolve around items that, in years past, were resolved in the
391 MCOSS.

- 392 - The first time in which the ECOSS directly affected residential rates was
393 after the legislatively-mandated rate freeze ended at the end of 2006. Prior
394 to that the distribution portion of rates actually paid by residential
395 ratepayers were driven by the MCOSS.

396
397 **IV. STREET LIGHTING ANALYSIS –**
398 **SECONDARY FACILITIES AND SERVICE DROPS**
399

400 **Q. Given the apparent confusion regarding secondary service costs, please**
401 **describe the general configuration of City street lights and how you analyzed**
402 **the costs?**

403 A. I separated the street light costs into those that are associated with alley lights and
404 those that are associated with arterial and residential street lights. I separated
405 street lights in this way because alley lights use secondary wire that is *shared* with
406 other residential and business ratepayers while residential and arterial street lights
407 have a small piece of wire that is directly connected to the street lighting system
408 and that is not shared with other ratepayers. Given the difference in these types of
409 configurations, I made an analysis of the costs associated with the residential and
410 arterial street lights. When making this analysis I stated that my analysis was of
411 “actual costs for secondary wire associated with residential and arterial street
412 lights.” City Ex. 1.0 at 38, LL 877-78. In this analysis I compared the cost that

413 ComEd computes for the residential and arterial street lights to the actual costs.
414 The table that I presented on page 39 of my direct testimony summarizing my
415 analysis states that the ComEd costs are “Non-Alley” costs. This analysis shows
416 that actual costs of non-alley costs are about \$74,000 while ComEd allocates
417 \$684,000 of non-alley costs to the City.

418

419 **Q. How did you analyze secondary costs associated with alley lights in your**
420 **direct testimony?**

421 A. For alley lights, which are owned by the City but located on ComEd poles, I
422 concluded that the NCP allocator is inappropriate because it penalizes classes,
423 such as the street lighting class, that do not have artificial within-class diversity.
424 I also stated that City alley lights and similar systems in the suburbs should have a
425 relatively higher cost allocation than arterial and residential lights because these
426 systems directly use ComEd poles.

427

428 **Q. What was ComEd’s response to your analysis?**

429 A. ComEd witnesses Alongi and Heintz made the following comments:

430 1. Mr. Alongi stated that my estimates of the number of feet of secondary
431 wire for arterial and residential street lights were incorrect. He estimated that the
432 average length of wire dedicated to street lights is about 113 feet instead of 40-50
433 feet. He stated that this difference in assumption invalidated my analysis.
434 ComEd Ex. 6.0 at 48-49, LL 1105-25.

2. Even though alley lights share secondary wire with other ratepayers, Mr. Alongi asserted that secondary wire for alley should have been included in my analysis of the cost to serve residential and arterial street lights. Doing so would require that the entire cost of secondary wire for alley lights are allocated to residential and arterial street lights even though it is obvious that this wire is shared by many different ratepayer groups. *Id.* 49, LL 1127-36.

3. Mr. Heintz stated that my graph of secondary costs relative to total cost of service was not a valid way to assess cost differentials. ComEd Ex. 7.0 at 10-11, LL 216-26.

4. Mr. Alongi testified that it is inappropriate to make a detailed analysis of street lights. ComEd Ex. 6.0 at 44, lines 1018-20.

5. Mr. Alongi asserted that I did not correctly represent the configuration of suburban street lighting systems. *Id.* at 43-44, LL 990-1015.

6. Mr. Alongi testified that an example that I used in my testimony to illustrate the allocation of pole costs was incorrect. *Id.*

7. Mr. Alongi stated that I did not understand the basis of how the company makes service drop calculations for street lighting and other classes. *Id.* at 45-46, LL 1052-67.

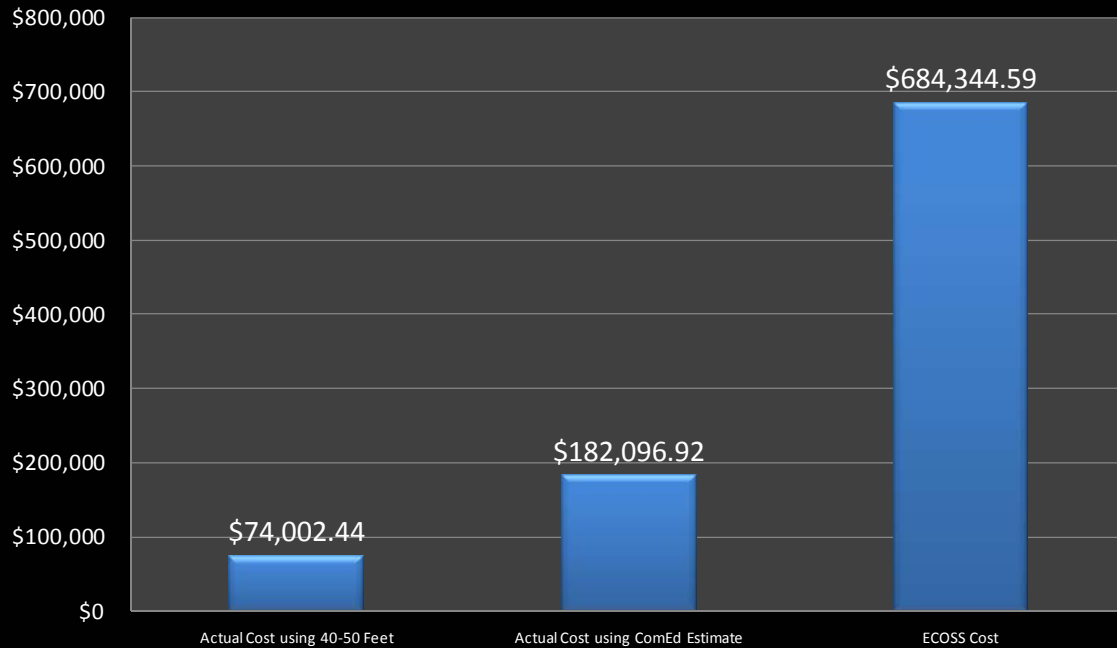
I respond to the points in the same order as they are presented above.

Q. Please comment on the first point that your estimate of the number of feet between transformers and City owned street light facilities was too low.

458 A. ComEd disagreed with the estimate of the amount of wire that is between
459 transformers and street light controllers that was given to me by City engineers.
460 According to Mr. Alongi, "To check his assumption of 40 feet for arterial lights
461 and 50 feet for residential lights, ComEd reviewed certain distances within a
462 small section of typical alleys in the City." While I appreciate this bit of work
463 performed by ComEd, it is unfortunate that ComEd had to wait until the rebuttal
464 phase of the case to do its analytical work.

465
466 In any event, based on its sampling, ComEd computed the average amount of
467 secondary wire between street lighting controllers and transformers as 113 feet,
468 rather than the 40-50 feet that I had estimated. Assuming that ComEd's 113 feet
469 figure is correct and used in my analysis rather than my 40-50 feet estimate, the
470 difference between the costs ComEd charges the City in its cost study and the
471 actual costs is still dramatic for arterial and residential street lights. The graph
472 below compares the costs in ComEd's ECOSS that are attributed to street lights
473 and the actual cost using my original estimate and ComEd's 113 feet estimate.
474 The largest bar is the allocated cost -- *excluding alley lights* -- from ComEd's
475 cost study. The middle bar uses a 113 feet assumption and the smallest bar uses
476 my original estimate. While use of ComEd's estimate increases the actual cost of
477 the secondary wire from \$74,002 to \$182,097, ComEd's overestimate in its
478 ECOSS of \$684,345 relative to actual cost is still dramatic.

Cost in ComEd ECOSS versus Actual Cost of Secondary Wire Serving Arterial and Residential Street Lights -- Excluding Alley Lights



The table below shows details of the cost comparison I used to construct the above graph using ComEd's estimate. I have modified a couple of titles of the table so as to make it absolutely clear that the cost of alley lights are excluded from ComEd's cost of service study amount and the estimated actual cost.

Estimated Actual Cost of Arterial and Residential		
Item	Source	Amount
Cost per Foot of Wire	ComEd Exhibit 1.5	\$1.82
Total Feet from Above Table	Use of 113 Feet	1,161,740
Total Cost	Feet x Cost/Foot	\$2,115,733.15
Accumulted Depreciation and ADIT Pct	ComEd ECOSS - Secondary	48%
Rate Base (Total Cost x (1-Acc Dep & ADIT)	Cost x (1-Acc Dep & ADIT)	\$1,100,181.24
Rate Base and Gross Up Percent	ComEd ECOSS	11.84%
Return on Rate Base	Rate Base x Gross Up	\$130,261.46
Depreciation Percent	ComEd ECOSS	2.45%
Depreciation Expense	Cost x Dep Pct	\$51,835.46
Total Cost of Service for NON-ALLEY Street Lights	Dep + Return on Rate Base	\$182,096.92
ComEd Secondary and Service Drop Cost in ECOSS		
Secondary and Service Cost in ECOSS	ComEd ECOSS	\$1,594,964.30
City Energy Percent	ComEd DR 2.22 and 2.21	57%
Total Cost INCLUDING ALLEYS Allocatated to City	Total x City Percent	\$912,459.46
ADJUSTED PERCENT TO EXCLUDE ALLEYS	75% x City Percent	43%
Cost in ECOSS Attributable to NON-ALLEY Street Lights	ComEd Cost x 43%	\$684,344.59

488

489

490 **Q. Please comment on ComEd's second argument that secondary wire for alley**
491 **lights should have been included in my analysis of the cost to serve**
492 **residential and arterial street lights.**

493 **A.** ComEd's assertion that I did not include the cost of wire associated with
494 secondary costs for residential and arterial street lights is wrong. It is also
495 difficult to explain because, assuming the utility read my testimony closely, it is
496 clear that my analysis related only to residential and arterial street lights and

497 including secondary wire used to serve alley lights would be wholly
498 inappropriate.

499

500 To clear up any possible confusion, the steps included in my analysis of the cost
501 to serve residential and arterial street lights are set forth below.

502 - In my analysis I compared the allocated cost in ComEd's cost study with
503 an estimate of the actual cost as measured by the quantity of wire used to serve
504 residential and arterial street lights. In this analysis I removed the cost of alley
505 lights from ComEd's allocated cost and I did not include the costs of the alley
506 lights in my actual cost analysis. This should be obvious to anybody who
507 carefully read my table.

508 - Even though the table shown on page 38 of my direct testimony did not
509 include alley light estimates, ComEd computes that alley lights should use
510 5,332,220 feet of wire. ComEd Ex. 6.0 at 50, LL 1130-35. According to
511 ComEd's workpapers, that number represents 35% of all secondary costs that the
512 utility's cost study allocates to all ratepayers in the City (i.e. use of ComEd's
513 number implies that 35% of secondary costs for all of its street lighting and other
514 classes, including residential, business, should be attributed to alley lights.) I do
515 not take issue with the secondary facilities for residential and arterial street lights
516 being charged only to the City. However, the secondary facilities used to serve
517 alley lights also serve residential customers, business customers, and industrial
518 customers. It is unfair that alley light secondary costs are allocated solely to the
519 City.

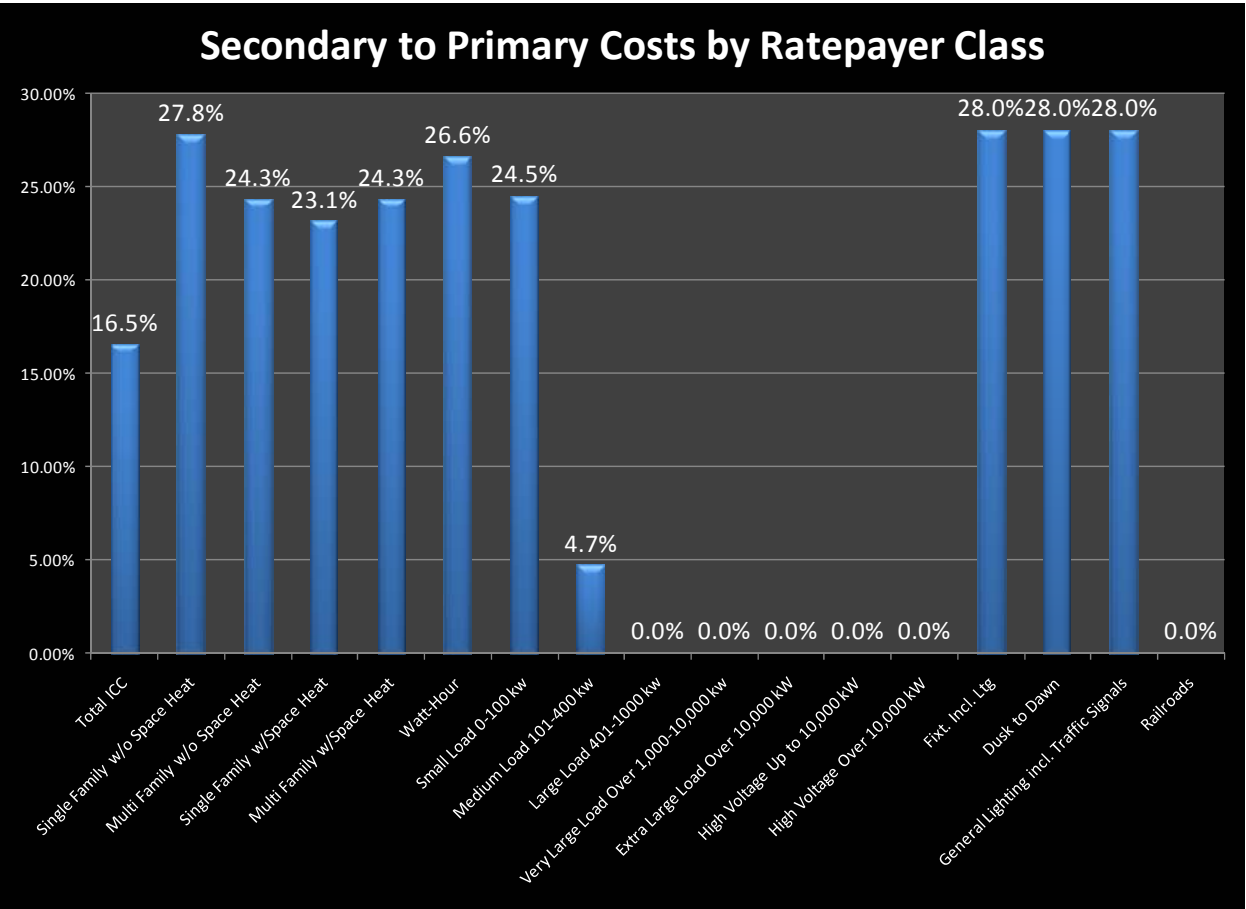
520 - ComEd is fully aware of this. It knows that unlike the wire to arterial
521 lights and residential lights in which a *single* low voltage wire is dedicated only to
522 serving the street lighting controller, the wire that serves alley lights is *shared*
523 with other ratepayers who use secondary service. Despite this uncontroverted
524 fact, ComEd includes the entire cost of all secondary wire connected to alley
525 lights as a cost that should be incurred by the City's street lighting system.

526

527 **Q. Please comment on the third point, Mr. Heintz's complaint that comparing**
528 **to the secondary cost to the total cost of service is not a valid way to assess**
529 **cost differentials.**

530 A. I disagree with Mr. Heintz's claim. To remove any confusion, the chart below
531 shows the ratio of secondary costs to primary costs for different ratepayer classes.
532 This chart -- which is not affected by the overall cost of service -- demonstrates
533 that the street lighting class is allocated the highest amount of secondary costs
534 even though the above analysis shows the secondary costs are dramatically
535 overstated. The chart below shows that street lighting ratepayers pay more
536 secondary costs in relation to primary costs than any other class.

537



539

540

541

542 **Q. Please comment on the fourth point, Mr. Alongi’s assertion that it is**
543 **inappropriate to conduct a detailed analysis incurred by City of Chicago**
544 **Street Lights?**

545 **A.** I disagree with the assertion that the Commission should not attempt to gain
546 accurate cost information. The only way to address the “deficiencies” identified
547 by the Commission is to evaluate actual costs, whether they are actual costs of
548 primary versus secondary wire, actual cost of billing ratepayers, or actual street

549 lighting costs. Despite this obvious fact, Mr. Heintz attempts to suggest an
550 ECOSS should not compute cost of service in an accurate manner. He testified:

551 Q. Does an ECOSS produce a precise allocation of
552 costs to customer classes?
553

554 A. No. I began this discussion by noting that an
555 ECOSS is done in “a systematic manner”, ***but this does not***
556 ***mean that precision is the objective.***
557

558 ComEd Ex. 7.0 at 8, LL (emphasis added). I am not certain what to say.
559 Apparently, in Mr. Heintz’s view, more and better information is not important.
560

561 Moreover, ComEd’s points about studying individual ratepayer costs are wrong in
562 general and even more with respect to City Street lights because the City of
563 Chicago represents about 57% of the total Dusk-to-Dawn ratepayer class. When
564 the specific costs are evaluated for the City, this represents most of the cost of the
565 class. According to the Commission’s Initiating Order, the whole idea of this
566 case is to make a more accurate determination of costs by evaluating actual costs,
567 including the costs to serve the City’s street lights. It is surprising that ComEd
568 suggests that actual costs should be ignored in the instance of street lighting when
569 the Company was specifically ordered by the Commission to evaluate these costs.
570

571 **Q. What is your comment regarding the fifth point, Mr. Alongi’s testimony that**
572 **some suburbs have a similar street lighting configuration as the City of**
573 **Chicago?**

574 A. I have no reason to question Mr. Alongi’s testimony on this subject. To the extent
575 other municipalities and the City have similar street light configurations, they

576 should, of course, receive the same rate treatment. More to the point, the most
577 important of my recommendations – that is the allocation of primary facilities
578 using coincident peak and the allocation of secondary facilities using billing
579 demand – applies to street lighting accounts for all municipalities and other
580 governmental entities. It also applies just as much to the Fixture Included class as
581 the Dusk-to-Dawn class. The fact is that ComEd’s ECOSS treats all of the street
582 lighting classes in a particularly harsh manner.

583

584 **Q. Please comment on ComEd’s sixth point, Mr. Alongi’s statement that a**
585 **hypothetical example you used in your direct testimony (City Ex. 1.0 at 52-**
586 **53, LL 1112-28) was wrong because it assumed that ComEd owns the lighting**
587 **fixtures.**

588 A. Mr. Alongi is correct and I should have been more careful with the example. The
589 City will submit errata to my direct testimony correcting this mistake. The
590 example will now state that the municipality rather than ComEd owns the
591 lighting fixture and the bulb. With this correction, the conclusion drawn from my
592 example is exactly the same as my original conclusions, and applies directly to the
593 Dusk-to-Dawn ratepayer class. This conclusion was that alley lights should have
594 a different allocation of pole costs than residential and arterial lights.

595

596 **Q. Please comment on the final point regarding statements made by Mr. Alongi**
597 **and Mr. Heintz that even though street lighting facilities do not have actual**

598 **service drops, they should be allocated service drop costs because of labor**
599 **costs in connecting wire to transformers.**

600 A. Mr. Heintz makes the following rather confusing statement with respect to service
601 drop costs -- "...services are, indeed, allocated to Dusk-to-Dawn Lighting,
602 because ComEd incurs Services costs other than the drop to connect lighting."
603 ComEd Ex. 7.0 at 11, LL 236-238.

604
605 Mr. Alongi stated that I am confused because when I drive around I do not see
606 service drops associated with street lights – the lamps are either directly
607 connected to ComEd's secondary wire or they use their own wire. Despite the
608 lack of actual secondary wire, Mr. Alongi leaves one with the impression that
609 ComEd directly attributes the costs of secondary wire in a very detailed an
610 accurate manner to each ratepayer group on the basis of actual facilities. Mr.
611 Alongi testified "... it is only ComEd's cost for labor to connect the customer-
612 owned service connection wire that is included in the development of the
613 weighting factor for service connections for dusk to dawn street lighting
614 customers." ComEd Ex. 6.0 at 46, LL 1060-62.

615
616 If Mr. Alongi's statement were true, then all ratepayers who have customer-
617 owned wire should have service costs as any ratepayer must be connected to
618 ComEd's system. But that is not true. The facts demonstrate that ComEd's
619 calculations do not reflect actual costs. The problems with ComEd assertions
620 include the following:

- Given that every ratepayer who does not own its own transformer incurs costs for connecting wire to the transformer one would expect every ratepayer class to have secondary costs. Yet classes such as the 400-1000 kW class are allocated no service drop costs in the ECOSS. ComEd's imposition of connection costs on the street lighting classes, but not to other classes in the same circumstances, is discriminatory.

- When one evaluates the costs that ComEd calls service drop costs for the Dusk-to-Dawn rate class, the magnitude of the numbers does not make sense. Dividing the services cost plant balance by the amount of wire that is dedicated to arterial and residential street lights results in a cost-per-foot that exceeds the entire cost-per-foot of overhead wire in the City.

- The actual capitalized cost of wire includes both labor and material costs. If labor costs are separately classified as service drop costs, then these costs should be removed from other primary and secondary wire costs in the ECOSS.

V. COSTS THAT COMED LABELS AS CUTOMER-RELATED COSTS

Q. Turning to customer costs, please summarize the approximate dollar impact of your recommendations for allocating customer-related costs versus the manner in which ComEd currently allocates the costs?

A. While I do not have all of the data required to summarize my recommendations relative to the ComEd ECOSS, I have computed an estimate of the effect of my recommendations in the table below. The top of the table shows the manner in

which ComEd currently allocates costs while the bottom of the table shows the effects of my recommendations.

Estimated Effect of City Recommendations versus ComEd Allocations								
	Total ComEd Cost of Service	Mgmt Salaries	Single Family w/o Space Heat	Multi Family w/o Space Heat	Single Family w/Space Heat	Multi Family w/Space Heat	Total Residential	Total Non-Residential
ComEd Allocations								
Metering	120,267,538		57,812,324	29,515,202	911,782	4,634,768	92,874,075	27,393,462
Data Management	178,033,036		92,519,605	42,249,522	1,485,430	6,608,771	142,863,328	35,169,708
Pure Billing	26,089,989		15,480,001	6,836,573	244,141	1,073,546	23,634,261	2,455,727
Installation	59,672,605		35,405,610	15,636,501	558,396	2,455,398	54,055,905	5,616,700
Customer Information	12,135,235		5,614,744	2,479,690	88,552	389,385	8,572,372	3,562,863
Total ComEd	396,198,402		206,832,283	96,717,489	3,288,302	15,161,868	321,999,942	74,198,460
Percent of Total			52.2%	24.4%	0.8%	3.8%	81.3%	18.7%
Estimated City Allocations								
Metering (Same as ComEd)	117,244,499	2,877,345	54,976,023	28,067,172	867,049	4,407,384	88,317,628	26,049,526
Pure Billing (Same as ComEd)	44,702,611	1,097,065	25,872,525	11,426,318	408,046	1,794,273	39,501,162	4,104,384
Billing Exceptions (Res/Energy)	10,945,583	268,620	4,843,581	978,038	191,789	392,769	6,406,178	4,270,785
Complaints (Res/Energy)	42,632,193	1,046,254	18,865,372	3,809,381	747,005	1,529,805	24,951,563	16,634,376
General Distribution (NCP)	39,353,443	965,789	13,405,803	2,880,726	491,088	1,100,289	17,877,906	20,509,748
Outage (NCP)	9,361,554	229,746	3,189,026	685,279	116,822	261,741	4,252,868	4,878,940
Moving and Re-Location (Res/Energy)	30,850,274	757,109	15,926,983	3,216,048	630,655	1,291,529	21,065,215	9,027,949
Software (NCP)	47,678,063	1,170,087	16,241,596	3,490,100	594,970	1,333,038	21,659,704	24,848,272
Collection Costs (Res/Energy)	36,575,081	897,604	25,789,859	5,207,604	1,021,191	2,091,316	34,109,971	1,567,507
Policing of Un-Metered Accounts (Res/Energy)	4,719,867	115,832	2,958,865	597,467	117,161	239,936	3,913,430	690,605
Customer Information (Res/Energy)	12,135,235	297,816	4,904,338	990,306	194,195	397,696	6,486,535	5,350,884
Management Salaries (NCP)			3,395,576	729,664	124,388	278,694	4,528,322	5,194,945
Total City	396,198,402	9,723,267	190,369,547	62,078,103	5,504,361	15,118,471	273,070,482	123,127,920
Percent of Total			48.0%	15.7%	1.4%	3.8%	68.9%	31.1%
Energy Percent			34.9%	7.5%	1.3%	2.9%	46.6%	53.4%
Increase from City Recommendation			-16,462,736	-34,639,386	2,216,059	-43,398	-48,929,460	48,929,460
Total Cost of Service	2,043,284,876		845,919,043	218,744,259	22,358,976	55,313,116	1,142,335,394	900,949,481
Percent Increase			-1.95%	-15.84%	9.91%	-0.08%	-4.28%	5.43%

The above table shows that my recommendations result in a reduction in overall cost of service to multi-family ratepayers of more than 15%. The recommendations also result in a reduction of about 2% to the single family rate class. Even though the multi-family class would receive a 15% reduction, the amount of costs allocated to them is still very high compared to the amount of energy that class use. In the above table, even with my changes, multi-family ratepayers are allocated 16% of the total costs even they only use 7.5% of the total amount of energy on the system.

658 **Q. You stated that the allocations are an estimate. What assumptions did you**
659 **use in computing the above table?**

660 A. The assumptions that I used to compute the above amounts are shown in the table
661 below:

662

Assumptions Made in City Cost Allocation Analysis	
Cost Item	Allocation Assumption
Metering	Same as ComEd -- Meter Factor
Pure Billing	Same as ComEd -- Number of Bills
Billing Exceptions	Assume that 40% of billing exceptions are related to business ratepayers; allocate residential costs using energy
Complaints	Assume that 40% of complaints are related to business ratepayers; allocate residential costs using energy
General Distribution	Allocate by NCP
Outage	Allocate by NCP
Moving and Re-Location	Assume that 30% of relocation costs are related to business ratepayers; allocate residential costs using energy
Software	Allocate by NCP
Collection Costs	Assume that 96% of collection costs are related to business ratepayers; allocate residential costs using energy
Policing of Un-Metered Accounts	Assume that 85% of un-metered costs are related to business ratepayers; allocate residential costs using energy
Management Salaries	Allocate by NCP

663

664

665 ComEd may have more precise data for the number of residential and non-
666 residential billing exceptions, the number of residential and non-residential
667 complaints related to momentary outages, the number of re-locations and the
668 policed accounts that would affect the table. Perhaps, ComEd could update my
669 table as part of its sur-rebuttal testimony in this case.

670

671 **Q. Please summarize your analysis of the various customer cost items.**

672 A. I worked through each account provide by ComEd and identified the cause of
673 each cost. The adjustments included:

674 - Many of the costs such as outage costs, general transmission and
675 distribution costs, software costs, and management salaries are general costs that
676 are associated with operating a distribution utility company. Rather than

677 allocating these costs on the basis of the number of ratepayers, these costs should
678 be allocated on the same basis as general distribution costs *i.e.*, on the basis of CP
679 or NCP.

680
681 - Customer information costs such as Nature First and City Colleges that
682 provide general system benefits should be allocated on the basis of general
683 demand allocators rather than the number of customers, since these programs are
684 designed to benefit all customers.

685
686 - Theoretically, billing exceptions costs should theoretically be allocated on
687 the basis of ratepayers who cause the billing error to occur. This is not possible
688 because there is no rate class for customers who have billing exceptions.
689 However, ComEd's method of allocating these costs on the basis of the number of
690 customers is not reasonable. A better alternative is to split the costs between
691 residential and non-residential ratepayers and allocate the costs on the basis of
692 energy within the residential class.

693
694 - Complaint costs should be allocated on the basis of ratepayers who com-
695 plain. This is not possible and the ComEd's method of allocating these costs on
696 the basis of the number of customers is unfair. A better alternative is to split the
697 costs between residential and non-residential ratepayers and allocated on the basis
698 of energy within the residential class.

699
700 - Collections costs should be allocated to ratepayers who are delinquent.
701 Since the revenues associated with late collection fees are not separated in the
702 ECOSS, allocating costs on the basis of the number of customers is unfair to those
703 low use ratepayers who pay their bills on time. A fairer alternative is to split them
704 between residential and non-residential ratepayers and allocate them on the basis
705 of energy within the residential class.

706
707 **Q. Did ComEd point out any glaring factual errors in your testimony or**
708 **workpapers with respect to customer cost allocation?**

709 A. No. Given that ComEd did not respond to the specific analysis that I presented, I
710 presume that the Company thinks my analysis is correct.

711
712 **Q. Please categorize the general responses ComEd made to your testimony with**
713 **respect to customer cost items and comments on the issue made by Staff.**

714 A. The general responses included:

715 1. ComEd asserts that my analysis does not conform to cost causation

716 principles and I am attempting to “socialize” costs to meet non-cost policy

717 objectives. ComEd Ex. 7.0 at 14, LL 293-96.

718 2. Staff witness Lazare stated that customer costs issues have been reviewed

719 in previous rate cases and the initiating order should not have requested

720 more analysis on the issue. Staff Ex. 1.0 at 33, LL 750-53. ComEd relied

721 on Mr. Lazare’s statements testimony as its primary argument to refute my

722 analysis.

723 3. ComEd states that my observation that the Company mislabels its

724 accounts is mistaken and the utility appropriately classifies its costs.

725 ComEd Ex. 5.0 at 19, LL 413-22.

726 4. ComEd asserts that it already directly allocates some costs to business

727 ratepayer classes in what it calls its direct allocation.

728 5. ComEd states that a reason my recommendation should not be adopted is

729 “destabilization of utility revenues and utility cost recovery.” ComEd Ex.

730 4.0 at 15, LL 305-08.

731 6. ComEd asserts that having high customer charges is not harmful to low

732 income ratepayers because there is no correlation between income and

733 electricity usage.

734

735 **Q. Beginning with the first point, how do you respond to ComEd's assertion**
736 **that your recommendations are not cost based, but rather represent a move**
737 **towards socialism?**

738 A. All of my testimony adheres strictly to the idea of cost causation. Mr. Heintz
739 claimed otherwise, stating "In my view, most of the recommendations Mr.
740 Bodmer makes to the Commission in this docket represent a significant departure
741 from the principles of cost causation that have guided the Commission's decision-
742 making for many years." ComEd Ex. 7.0 at 14, LL 293-96.

743

744 Mr. Heintz is incorrect. The difference between my position and that of ComEd
745 and (and AG witness Rubin's position regarding uncollectible cost) is that I admit
746 that some costs cannot realistically be allocated to the cost causer. ComEd
747 glosses over this obvious limitation by asserting that the cause of various costs is
748 related to the number of ratepayers in the various rate classes. In many instances,
749 ComEd's claims are baseless – there is no costs causation correlation between
750 certain costs and the number of ratepayers in different rate classes. One plain
751 example of this is the uncollectible cost which is caused by ratepayers who do not
752 pay their bills. No matter what Mr. Heintz and Mr. Rubin may say, this cost
753 cannot be imposed on the cost causer because the cost causer is no longer a
754 ratepayer. Given that the cost causer, as a former ratepayer and a cost causer
755 cannot be charged with the cost, it is not appropriate to impose the cost
756 disproportionately on rate classes who, by virtue of being poor, have
757 characteristics similar to the customers who did not pay their bills.

758

759 The Commission understood this as it adopted the City's position in its Order in
 760 Docket 07-0566. ComEd apparently did not. The point is that if it is impossible
 761 to impose the cost on the cost causers, some other allocation method must be
 762 chosen. In such cases, the default position must not be to impose the cost in the
 763 most regressive manner on low-use ratepayers, who are often also low-income
 764 persons.

765

766 To refute Mr. Heintz's allegation that my direct testimony deviated from cost
 767 causation principles, the table below shows the various categories for which I
 768 have separated costs and the associated cost causer. In the third column I list
 769 whether or not there is a way to charge the cost causer using existing billing
 770 determinants. For those costs which have billing determinants I show what is the
 771 appropriate allocation method.

772

Category	Cost Causer	Billing Determinants Exist for Cost Causer	Allocation Factor
Metering	Meters at ratepayer location	Yes	Meters
Pure Billing	Number of Bills	Yes	Bills
Billing Exceptions	Bills with Errors	No	
Complaints	Ratepayers who Complain	No	
General Distribution	Construction of Distribution Facilities	Yes	Demand
Outage	Construction of Distribution Facilities	Yes	Demand
Moving and Re-Location	Ratepayers who Move	No	
Software	Construction of Distribution Facilities	Yes	Demand
Collection Costs	People who do not pay their bills	No	
Policing of Un-Metered Accounts	People who steal electricity	No	
Management Salaries	Construction of Distribution Facilities	Yes	Demand

773

774

775 **Q. Please explain how your specific recommendations are cost based.**

776 A. The cost causation basis for proposed allocations for the various customer-related
777 costs is described below:

778 - For customer information costs such as Nature First that provide
779 general benefits, demand allocators such as CP should be used rather than
780 customer cost allocators because the programs provide for a more efficient
781 distribution system. My proposal on this issue is similar to the allocation method
782 ComEd is proposing for its Smart Grid pilot program. There, the Company does
783 not suggest that costs should be allocated based on the number of customers.

784 - For billing and metering I agree with ComEd that the number of
785 bills or the meter factors should be used. These costs should be essentially
786 allocated on the basis of the number of ratepayers.

787 - For billing exceptions, the costs are driven by the bills on which
788 ComEd makes errors. In such cases, cost causation theory would dictate charging
789 ratepayers who received the erroneous bills. Furthermore, it is logical that billing
790 errors occur more often for business ratepayers with complex bills and less often
791 for low use ratepayers who have simple bills. I stated this in my direct testimony
792 and it was not refuted by ComEd. Given that strict cost causation cannot be
793 implemented for billing errors, I disagree with imposing the costs in the most
794 regressive manner possible. I note that in the marginal cost study many of these
795 types of costs were implicitly allocated on the basis of energy and demand
796 because the costs were not counted as marginal costs.

797 - For complaint costs, which are defined by ComEd as “momentary
798 interruptions of service, power quality, power surges, flickering lights ...,” the

799 cost causers are the ratepayers who complain about things like power quality. As
800 with uncollectible costs and billing exceptions, these costs cannot be imposed on
801 the customers who really cause the costs to occur unless a charge is added to their
802 bill when they complain. As with other costs that cannot be tied to cost causers it
803 is wrong to allocate the complaint costs by default to low use ratepayers. In a
804 similar manner as billing errors, these costs were not part of the marginal cost
805 calculus in the MCOSS and implicitly allocated on the basis of energy and
806 demand.

807 - For general distribution costs, outage costs, and software costs, the
808 cause of such costs is the movement of power over lines. These are general costs
809 of doing business; they are not associated with sending bills or reading meters.
810 For example, the cost category labeled “general distribution” includes items such
811 as transmission and distribution general activities. “Outage costs” consist of costs
812 associated with responding to outages. “Software costs” consist of costs for the
813 mapping system that has been discussed by ComEd witnesses in this case. *See,*
814 *e.g.,* ComEd Ex. 6.0 at 27, LL 652-55. These costs arise because they are part of
815 the general, overall costs of moving power over lines. They should be allocated
816 on the same basis as power lines and not imposed in a manner that
817 disproportionately affects low-use ratepayers.

818 - For administrative salaries, the costs are not driven by the number
819 of bills but by general distribution activities. Dr. Hemphill stated that: “The
820 ComEd executives named by Mr. Bodmer are responsible for the full breadth and
821 scope of ComEd’s activities...” ComEd Ex. 4.0 at 15-16, lines 333-36. That is

822 exactly my point. Given that the costs are caused related to general distribution
823 costs, they should be allocated on the same basis as distribution costs and not be
824 disproportionately imposed on low use ratepayers.

825

826 In sum, my entire analysis is derived directly from cost allocation and conforms to
827 the statement by the Commission in the last case that: “The Commission made
828 clear in ComEd’s last rate case that it “endorsed a simple, non-controversial
829 principle: that costs and expenses should be allocated to and recovered from those
830 who caused costs to be incurred.”

831

832 **Q. Please comment on the second point on your list, Mr. Lazare’s statement**
833 **that the customer cost issues have already been resolved.**

834 A. In his direct testimony, Peter Lazare stated that “It should be remembered that the
835 allocations of these costs on a customer basis have been presented and reviewed
836 in previous rate cases and found to be reasonable from a cost standpoint. This
837 lends further support to the Company’s general conclusions on these costs.” Staff
838 Ex. 1.0 at 33, LL 750-753.

839

840 These few lines were apparently very important to ComEd as it used them
841 repeatedly to dismiss all of my analysis. Regardless, I disagree with Mr. Lazare
842 that the costs were extensively presented and reviewed in previous cases.

843 - When ComEd used its MCOSS, many of the customer costs (such as
844 installation costs and customer information costs) were not defined as a marginal

cost. By definition this means that these costs were incorporated in the difference between revenue requirement and cost of service. Because ComEd was then an integrated utility, much of the marginal cost was driven by energy, meaning the costs were allocated to a large extent by energy.

- The City briefly reviewed the allocation of expenses in the 2001 rate case and based on the City's testimony, ComEd was ordered to split the expenses between residential and non-residential ratepayers in what it now calls "direct assignment" to different ratepayer classes. My recollection is that no other party presented any testimony on the cost allocation of customer costs in that case or any subsequent case.

- In the 2005 case, the City did not present its own testimony on rate design, but co-presented testimony by Scott Rubin who did not address customer costs. In the 2005 case, no testimony was presented on the allocation of customer costs.

- In the last rate case, 07-0566, the City examined customer costs, but there was not sufficient information to adequately investigate the cost causation and the cost allocation of such expenses. Docket 07-0566 Order at 211. This lack of information prompted the Commission to include customer costs in its Initiating Order as an issue that required additional analysis. Stating that the issue was decided in past cases does not constitute additional analysis.

In short, customer costs have not been reviewed in detail. I have been involved in the allocation of customer costs for a number of years and I can attest that detailed data on exactly what functions are performed in each cost item has not been

868 available. I also know that evaluating the detailed expenses is a painful, tedious
869 process and not the top priority of consultants who analyze cost allocation.

870

871 **Q. With respect to the third point, Mr. Meehan testifies that your**
872 **recommendations are derived from your statements that ComEd's expense**
873 **labels are not appropriate. Did this have anything to do with your specific**
874 **analysis?**

875 A. No. My revised calculations are derived from a detailed, function-by-function
876 analysis of costs. These calculations were provided to ComEd in my workpapers

877

878 **Q. ComEd's fourth point is the Company currently directly assigns certain**
879 **costs. Does this direct assignment mean ComEd has studied the question of**
880 **whether it is appropriate to allocate costs on the basis of the number of**
881 **ratepayers rather than something else?**

882 A. Not at all. The direct allocation does not address any of the cost allocation issues
883 listed above.

884

885 **Q. What is your reaction to Dr. Hemphill's comments with respect to revenue**
886 **destabilization (the fifth point on the above list)?**

887 A. His testimony is interesting and odd. Dr. Hemphill states "Moreover, arbitrarily
888 shifting costs that are customer-driven away from fixed charges will tend to
889 produce other undesirable effects. Foremost is the resulting destabilization of

890 utility revenues and utility cost recovery, which ultimately has an impact on all
891 other customers on the ComEd system.” ComEd Ex. 4.0 at 15, LL 305-308.

892

893 First, as I have repeated many times, my recommendation is not arbitrary and it is
894 inappropriate to describe the costs “customer driven.” More importantly, the
895 statement that ComEd is worried about revenue destabilization is telling. This
896 concern about keeping revenues risk free is likely why ComEd is so insistent that
897 the default cost allocation should be to use the number of customers rather than
898 more logical allocators – *e.g.*, allocators that are subject to greater variation, like
899 energy usage.

900

901 Finally, Dr. Hemphill makes a remarkable statement that high fixed charges
902 increase energy efficiency. *Id.* at 14, LL 308-10. This is of course dead wrong.
903 Higher energy charges, as opposed to higher fixed costs, motivate consumers to
904 realize savings by reducing energy usage.

905

906 **Q. Regarding the sixth point, Dr. Hemphill testifies that there is no support for**
907 **the assertion that low electricity use is correlated to low income. What is**
908 **your reaction to his testimony?**

909 A. All I can say is how times change. In 1992 Dr. Hemphill co-wrote an article
910 titled "Efficient Rate Design for Low Use, Low Income Electricity Consumers"
911 with Conrad Reddick and David Poyer for presentation to the Eighth NARUC
912 Biennial Regulatory Conference. As the title states, Dr. Hemphill did recognize

913 when he co-wrote the article that low use and low income were associated. One
914 of Dr. Hemphill's co-authors, Dr. David Poyer who at the time was an economist
915 at Argonne National Laboratory had performed a lot of analysis on the
916 relationship between income and electricity. I remember him telling me that
917 electricity is "the rich man's fuel" and that there is such an obvious relationship
918 between income and electricity usage that it is not very interesting to study.

919 920 VI. UNCOLLECTIBLE ACCOUNTS

921 **Q. ComEd, AG witness Rubin, and Staff witness Lazare all disagree with the**
922 **manner in which the Commission Order in 07-0566 resolved this issue and**
923 **the manner in which the initiating order mandates that "Uncollectible**
924 **Accounts" costs be treated. What is your general comment on this**
925 **testimony?**

926 **A.** In its Initiating Order, the Commission asked ComEd to implement its rulings that
927 secondary costs should be differentiated from primary costs, and that
928 uncollectible costs be allocated across all residential ratepayers. No party has
929 questioned the basic premise of separating primary and secondary costs; this was
930 resolved by the Commission. However, when it comes to uncollectible expenses,
931 ComEd, Mr. Rubin, and Staff have submitted testimony asking the Commission
932 to reverse its decision. This is particularly disappointing in the case of ComEd.
933 In its direct testimony the Company respected the Commission and only
934 addressed implementation issues. Then, in rebuttal, the Company argued that the

935 Commission should reverse its policy decision with respect to the imposition of
936 uncollectible expenses on low income ratepayers who do pay their bills.

937

938 **Q. Please respond to Mr. Rubin's testimony asking the Commission to reverse**
939 **its policy decisions.**

940 A. Mr. Rubin apparently has not followed the debate in Docket 07-0566 where the
941 Commission correctly recognized that costs for ratepayers who *do not* pay their
942 bills should not be imposed disproportionately on low income ratepayers who *do*
943 pay their bills. There is no doubt that people who rent and/or have low incomes
944 are more likely to not pay their bills than people who live in large single family
945 homes. But this does not mean imposing costs on multifamily ratepayers who do
946 pay their bills is cost based or that it is equitable to impose a higher cost on
947 similarly-situated ratepayers who do pay their bills. If your neighbor does not pay
948 his bill, there may be, statistically, a higher probability that you will not pay your
949 bill, but this does not mean that you caused ComEd to incur the expense of your
950 neighbor's uncollectible account.

951

952 In sum, the Commission was correct when it made its policy decision in the last
953 rate case. ComEd and Mr. Rubin ignored the bases of the Commission decision,
954 which was far more thoughtful than their arguments.

955

956 **VII. SERVICE DROPS**

957 **Q. How did ComEd respond to your testimony that the Company has not**
958 **complied with the Commission order with respect to service drops?**

959 A. Mr. Alongi testified that it cannot measure the length and cost of service drops
960 through use of mapping system. Instead of discussing how the Company could
961 investigate the relationship between customer size and the cost of service drops,
962 or even providing data and analysis, Mr. Alongi simply copied some of his
963 rebuttal testimony from Docket 07-0566. Problems with ComEd's rebuttal
964 testimony in this case with respect to service drops include:

965 - The general purpose of this case is to compile information on the issues
966 that the Commission identified in its Initiating Order. ComEd has not presented
967 any data regarding the questions of usage and service drop costs even though it
968 clearly could have gathered such information. For example, the Company could
969 select samples of single-family and multi-family ratepayers in different areas with
970 different levels of energy usage if it could not use its mapping system. For these
971 selected ratepayers, ComEd could compute or estimate the cost of the
972 underground or overhead service drop. This would have been a fairly obvious
973 thing to do but we are now coming to the end of the case and ComEd has not
974 provided the Commission any useful information on the issue. (It is interesting to
975 note that while ComEd did not have the time to perform this task, it found time to
976 analyze the distance of secondary wire used for City alley lights in a small section
977 of the City. ComEd Ex. 6.0 at 48, 1105-06.)

- Given the lack of information provided by the ComEd on the issue of service drops and usage, all the Commission can do at this point is to order ComEd to compile this type of information for the next case.

- As to the repeating of rebuttal testimony from Docket 07-0566, the Commission previously addressed these arguments. It did not agree with ComEd then and it is useless to repeat our rebuttal to ComEd's rebuttal from the same case.

VIII. COMED RATE COMPARISONS

Q. Please comment on the rate comparisons made by ComEd which it used to imply that it does not have relatively high customer charges.

A. Mr. Alongi presented a table which shows that except for Ameren which is also regulated by the Commission, *five* companies have higher customer charges, and *twenty seven* companies have lower customer charges than ComEd. This hardly seems like very compelling evidence that it's the Company's customer charges are in line with other utilities.² While I have not had time to review the ComEd analysis in detail, there is a significant error in the reported numbers for California utilities as well as Detroit Edison. These utilities have minimum bills in lieu of customer charges and the effective customer charge is zero.

² Please note, the IPALCO customer charge which only applies to usage above 325 kWh per month and the customer charges for the other Illinois utilities are not included in this analysis.

998 **IX. PRIMARY AND SECONDARY**

999 **Q. Please on Mr. Alongi's statement that cost of service differentiation by**
1000 **density and underground is too burdensome for the Company.**

1001 A. I am under no illusion that the Commission, in this proceeding, will order ComEd
1002 to account for underground cost differentials, density cost differentials, and age
1003 related cost differentials or regional cost differentials in its cost study. I recognize
1004 that the Initiating Order addressed specific issues and that these issues were not
1005 among them. However, I do note that it is ironic that ComEd cites cost causation
1006 principles for its decisions, but ignores these vital cost causing factors. I urge the
1007 Commission not to preclude the investigation of these issues in future cases.
1008 Further, as I have mentioned on many occasions, density and undergrounding
1009 were previously incorporated in the MCOSS.

1010
1011 **Q. Does this complete your rebuttal testimony?**

1012
1013 A. Yes.
1014